



Fiscal Year 2015 Annual Report

Office of Internal Audit

November 1, 2015

**Department of State Health Services
Office of Internal Audit
Annual Report for the year ended August 31, 2015**

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

The Texas Department of State Health Services is committed to compliance with Texas Government Code, Section 2102.015. The Department has organized a section of its internet site to include the annual internal audit report, which includes the internal audit plan. This can be located on the Department's website in the "About Us" section, under "Data and Reports."

This report will be on the agency internet within 30 days of publication. The web link will be <http://www.dshs.state.tx.us/datareports.shtm>.

Actions taken by the agency to address concerns raised by internal audit reports are identified as part of the internal audit follow-up work.

II. Internal Audit Plan for the year ended August 31, 2015

The internal audits planned for fiscal year 2015 were selected to address the agency's highest risk areas, based on the risk assessment process during the summer of 2015, which included input from Department of State Health Services (DSHS) management. In addition to the risk-based activities, certain administrative, and external audit functions were included.

Audit Projects for Fiscal Year 2015

Audits provide an independent assessment of processes or activities based on evaluation of management controls, testing of transactions, and review of evidence. Internal Audit, in collaboration with management, determines the nature and scope of each audit.

Project-specific risk assessments were further developed and presented to the DSHS leadership as projects were initiated to ensure that the scope and objectives were appropriately targeted to the highest risks within the activity.

All audits conclude with written reports that provide information to management, detailing the results of the audit, and offer suggestions and recommendations for improvement. The audits conducted during fiscal year 2015 are listed below.

Fiscal Year 2015 Audits

Internal Audit of Hospitals' Expenditure Controls	Project 2015-11 in progress
Post Implementation Internal Audit	Project 2015-13 in progress of Maven Registries in Production
Internal IT Audit of Identity and Access Management	Report 2014-07 issued October 2015
Internal IT Audit of Vulnerability Management	Report 2015-10 issued October 2015 and Remediation
Internal Audit of Public Health Preparedness	Report 2014-09 issued August 2015
Internal Audit of Hospital 3rd Party Reimbursements.	Report 2014-08 issued June 2015
Internal Audit of the DSHS Telework Initiative	Report 2014-10 issued February 2015
Internal Audit of select Human Resource Activities	Report 2014-05 issued October 2014

Follow-up Audit Work during Fiscal Year 2015

The Office of Internal Audit maintained a database of reported audit findings and periodically requested information about the status of addressing the unresolved audit findings. Status responses by agency management indicate that actions are being taken to address issues reported by Internal Audit. Actions addressing findings reported in fiscal year 2015 are due during the next fiscal year.

Follow-up Audit of internal and external audits of the Vital Statistics Unit issued since 2004
Report 2015-07 issued July 2015

Follow-up Audit of the January 2013 Internal Audit of Revenue Generating Contracts
Report 2015-06 issued January 2015

Follow-up Audit of the August 2013 Internal Audit of Institutional Review Boards'
Report 2015-05 issued November 2014

Administrative Activities during Fiscal Year 2015

Auditors participated in office, agency, and enterprise administrative activities throughout the year ranging from assessing agency risk to participating in workgroup activities. Details of the typical administrative activities can be seen in the fiscal year 2016 audit plan.

Deviations from the initial Fiscal Year 2015 Audit Plan

The internal audit plan was altered to accommodate staff turnover, external audits, and internal audit staff working around program and administrative staff schedules. This affected the number of internal audit projects commensurately.

- The Internal Audit of the WIC Program was postponed and then ultimately cancelled in consideration of turnover of key staff and full implementation of new processes.
- The Internal Audit of Health Services Regions' Organizational Structures and Functions was cancelled during the scoping phase of the audit in consideration of changes in the current environment. It was replaced with a Management Consultation to assist in analyzing select nursing positions across health regions.
- The Internal Audit of Budget Approval Processes and Reporting was postponed until fiscal year 2016 as a result of turnover in internal audit resources.
- The Internal IT Audit of Technology Patch Management was renamed The Internal IT Audit of Vulnerability Management and Remediation to better reflect the audit scope.
- There were four internal audits still in progress at year-end. Two were completed by the time of the issuance of this annual report. The two audits listed below will be completed later during fiscal year 2016:
 - Internal Audit of Hospital Financial Responsibility
 - Post Implementation Internal Audit of Maven Registries in Production

III. Consulting Services and Nonaudit Services in Fiscal Year 2015

Management Consultation to analyze select Nursing Positions Across Health Services Regions
Project 2015-08 in progress

The objective of this consultation is to assist the Assistant Commissioner in analyzing the uses of nursing positions in the various health regions.

Management Consultation of Select Regulatory Division Performance Measures
Letter 2015-09 issued May 2015

The objective of this consultation was to assist the Assistant Commissioner in determining whether the division was accurately reporting select performance measures, and whether adequate controls were in place over performance measure data collection, calculation, and reporting.

IV. External Quality Assurance Review (Peer Review)

In accordance with professional standards, and to meet the requirements of the Texas Internal Auditing Act, Internal Audit is required to undergo an external quality assurance review at least once every three years. The DSHS Office of Internal Audit completed the State Agency Internal Audit Forum peer review self-assessment in fiscal year 2013. Below is the executive summary from that 2013 report. The next peer review is scheduled for fiscal year 2016.

Pass

A rating of “**pass**” indicates that the DSHS Office of Internal Audit fully complies with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Audit Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

V. Internal Audit Plan for Fiscal Year 2016

The internal audits planned for fiscal year 2016 were selected to address the agency’s highest risk areas, based on the systematic risk assessment process. In addition to the risk-based activities, certain administrative and external audit functions are included. This audit plan has been approved by the DSHS Interim Commissioner.

This audit plan may be adjusted if significant changes in risk or operating environments occur. Additional projects, such as management consultations, may be conducted. Implementing recent legislation may also affect the audit plan. Adjustments in the audit plan will be communicated to the DSHS Interim Commissioner as well as externally, as appropriate.

Although the Internal Audit Plan contains a wide range of audits, it is not intended to cover every risk, and it does not provide coverage for all DSHS divisions, processes, or activities.

Authority

The Texas Internal Auditing Act (Texas Government Code, Chapter 2102) and the International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors require internal auditors to prepare annual audit plans. The Texas Internal Auditing Act requires that a state agency’s Internal Audit Director develop an annual audit plan for approval by the agency’s governing board, or by the administrator of that agency if the agency has no governing board. In accordance with these requirements, this section provides the Internal Audit Plan for the Department of State Health Services for fiscal year 2016.

Assessment of Risk

The Office of Internal Audit prepared an annual audit plan based upon a systematic assessment of risk for the Texas Department of State Health Services. The assessment was a collaboration with agency management, using a combination of management interviews and staff survey responses. The assessment also included an evaluation of issues identified during prior audits and consideration of the current operating environment.

Agency management provides input related to risks that could keep DSHS centers, divisions, sections, units, regions, hospitals, and programs from achieving their objectives. Survey questions specifically address operational, environmental, contractual, and information technology risks as well as fraud, waste, and abuse. Agency management provided input to identify and evaluate potential barriers to DSHS success.

Internal Audit combined the assessed risks with additional information obtained from prior internal and external audit reports and other data about business risks to identify the higher risk areas within programs and business areas. These lists were presented to agency executives for review, combined into a comprehensive list, and then ranked in order to identify those areas that warrant focus by internal audit resources in the current environment.

Audits planned for fiscal year 2016 are listed below, along with a brief description of each. A total of 18,460 direct audit hours have been allocated to audits.

Audits Planned for Fiscal Year 2016

Internal Audit of Budget Approval Processes and Reporting	1,870 budgeted hours
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An internal audit of the DSHS budget approval process affecting managers' ability to expend funds throughout the fiscal year, and thus the ability to manage unit budgets. To assess whether financial reports and/or budget change notices provide complete information, adequate to support management's ability to make timely financial decisions. To determine how budget changes at the strategy level are allocated by the budget unit between and among the various programs.

Internal Audit of Security for Mobile Employees	1,870 budgeted hours
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An internal audit of security and safety policies or measures for mobile employees. To assess whether existing security policy covers mobile employees and the conditions under which they routinely operate. An assessment of safety issues to determine if DSHS employees' safety is taken into consideration whether they are in a DSHS facility, a client's home, on the road, in a meeting, or performing any aspect of their job.

Internal Audit of Contract Management	1,870 budgeted hours
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An internal audit of the DSHS contracts' development and closing processes. To evaluate rules, policies, and staff roles in developing a statement of work that provides the desired outcomes, effectively and efficiently, and whether the contract payment process includes appropriate consideration of the progress and/or completion of the desired outcomes identified in the statement of work. May include an evaluation of aspects of Texas Senate Bill 20 (84th Legislature Regular Session, 2015).

Internal Audit of Interagency Contracts 1,870 budgeted hours

An internal audit of direct and indirect cost associated with interagency contracts. To evaluate and identify opportunities that DSHS has for the collection of costs associated with interagency contracts. To evaluate the basis for computing direct and indirect reimbursable costs and the maximum costs allowed by policy or by contract language.

Internal Audit of Hospital Costs and Indirect Costs 1,870 budgeted hours

An internal audit of select state hospital costs, to include SMT rates (support, maintenance, and treatment), indirect cost calculations, and outside medical costs. A review of hospital cost reports to ensure that the provided data are accurate, complete, and comprehensive. To evaluate the variety of methods used to assign indirect costs to state hospitals. To determine whether a consistent, reasonable standard is applied and whether there is a best practice for select cost allocations to hospitals.

Internal Audit of Laboratory Information System Security 1,760 budgeted hours

An internal IT audit of the process to identify and resolve application issues associated with laboratory test related fees and billing for those fees. To ensure that procedures exist to create accurate fee files for importation into the laboratory billing software, and verify complete and accurate files are imported. Consider test work to include each of the laboratory systems.

Completion of projects in progress at year end 3,300 budgeted hours

- Internal Audit of Hospital Financial Responsibility
- Post Implementation Internal Audit of Maven Registries in Production
- Internal Audit of Identity and Access Management
- Internal IT Audit of Vulnerability Management and Remediation
- Management Consultations

Follow-up Audit Work Planned for Fiscal Year 2016

Internal Audit maintains a database of reported audit findings and periodically request information about the status of addressing the unresolved audit findings. Follow-up audits will be conducted periodically to validate the status of addressing findings and conditions reported in prior Internal Audit reports.

Consulting Services and Nonaudit Services Planned for Fiscal Year 2016

Internal Audit offers consulting services for DSHS management, which add value by proactively providing expertise and independent analyses as management controls are being designed. In addition, Internal Audit offers management the appropriate level and type of service required to address specific situations and needs. These services are defined in the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, including nonaudit services, and defined in Government Auditing Standards.

All consultations conclude with written management letters that provide information to management, detailing the results of the project, and offer recommendations for improvement. Approximately 4,050 hours have been allocated to these services.

Management Consultations to Assist with Transition

Management Requests to accommodate agency consolidation and transition related information needs of managers.

A Management Consultation to Analyze Capacity of Newborn Screening

To conduct a review of the laboratory capacity, policy, and controls to address expectations of growth in the volume of newborn screening tests.

A Management Consultation to Consider Regulatory Inspections

To conduct a review relating to the unannounced inspection policy and schedules of select facilities.

Additional High Risks Identified but not Scheduled for Audit

Risks identified during the survey and interview process that, while important, are not ranked sufficiently high impact or high probability to warrant focus by limited internal audit resources. Taking action to address these, and all other agency risks, is the responsibility of DSHS management and program staff. Therefore, the Office of Internal Audit has shared the results of the risk assessment with DSHS executive management. Management understands its responsibilities regarding risk and the importance of mitigating it to the extent possible. Agency management has acknowledged responsibility for the below listed areas and has indicated that controls are in place to assure the day-to-day operations. Management descriptions have been provided in *italics*.

Audits in these areas may be considered if the Audit Plan is adjusted or the Office of Internal Audit gains additional resources.

Change Control

Information technology is an important and limited resource that is critical to carrying out the Department of State Health Services' (Department) mission. In addition, these systems contain sensitive information that must be protected. The department is in the process of redesigning many of its IT-related governance functions and ensuring proper controls for various activities including system changes.

Electronic and Paper Clinical Records

Protecting an individual's health information or personally identifiable information is an important responsibility of the department. A number of DSHS programs maintain clinical records that must be properly used and safeguarded. Department management will initiate efforts to ensure that all areas of the department that maintain clinical records are identified and that policies and procedures for managing and safeguarding those records are consistent and follow best practices.

Response to Public Health Emergencies

One of DSHS' primary functions is preparing for and responding to public health emergencies. These emergencies can take a variety of forms and have varying scopes. The department must ensure that it is able to communicate with staff to ensure that information flows quickly to ensure prompt response time. The department has put in place structures for response and communication flow. Department management will ensure that over the next year all call-down lists are updated and that communication procedures have been exercised to include internal and external stakeholders.

e-Grants Application Audit

Management of contracts is a significant function for DSHS. The e-grants system was put in place to streamline, standardize, and modernize the creation, execution, and management of contracts at DSHS. Some development of this system continues and department management supports a review of this system in the future. With a number of changes occurring related to contracting across state government and within health and human services, the role of e-grants may be modified and therefore a review may be more useful at a later date. In the meantime, department management conduct an administrative review of processes and controls relating to the e-grants system to ensure that roles and responsibilities are clear and that there are appropriate separation of duties and safeguards against misuse.

System Risks – Those risks identified during the Department of State Health Services survey and interview process, stemming from support provided by other agencies in the Health and Human Services System, have been directed to the Enterprise Audit Council for consideration:

- Contracting
- Addressing cross-enterprise public inquiry
- Human resource management issues
- Oversight fee analysis

External Audit Coordination

The Office Internal Audit serves as the liaison for external audit activities, providing a single point of contact for all audits of the DSHS by state and federal oversight entities. Internal Audit assists management in coordinating DSHS and external auditor interactions, to ensure both parties receive accurate and timely information and feedback.

Administrative Projects for Fiscal Year 2016

- Provide quarterly audit activity updates to executive management.
- Conduct annual risk assessment and prepare Annual Internal Audit Report in compliance with the requirements of the Texas Internal Auditing Act.
- Continue improving the database to track all unresolved audit findings and follow up on the status of unresolved audit findings, recommendations, or action plans. Provide systematic status tracking of unresolved audit findings based on management's assertions.
- Participate in various instructor-led or on-line courses in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates in order to meet continuing professional education requirements, and enhance auditor's professional proficiency.
- Participate in various executive and senior management team meetings and workgroups within DSHS, have standing memberships on committees in an advisory capacity to provide management with technical assistance in a variety of areas, and serve as an available resource on risk-related issues.
- Participate in HHS Enterprise Audit Council meetings and audit projects related to enterprise risk mitigation.
- Participate in various workgroups and committees as members of professional organizations, including the State Agency Internal Audit Forum, the Southwest Intergovernmental Audit Forum, the Institute of Internal Auditors, Internal Audit Forum, and the Information Systems Audit and Control Association.
- Participate in DSHS disaster training and provide support for disaster activities, as needed.
- Participate in transition planning activities for the Health and Human Service agencies.

VI. External Audit Services Procured in Fiscal Year 2015

The Texas Department of State Health Services did not procure external audit services in fiscal year 2015.

VII. Reporting Suspected Fraud and Abuse

Fraud Reporting

The intranet home page of the DSHS Office of Internal Audit provides information on how to report suspected fraud, waste, and abuse involving DSHS programs directly to the State Auditor's Office (SAO).

Since September 1, 2009, the home page of the Health and Human Services (HHS) system internet and the DSHS internet provide information on how to report suspected fraud, waste, and abuse involving health and human services programs directly to SAO. The home pages include the SAO fraud hotline information and a link to the SAO website for fraud reporting.

HHS Circular C-027, Health and Human Services Enterprise Fraud Prevention and Awareness, includes information on how to report suspected fraud involving state funds to the state auditor.

Coordination of Investigations

Chapter 321, Texas Government Code, §321.022 requires each state agency to report fraud to the SAO and requires coordination of investigations between the SAO and certain entities, including state agencies.

The Office of Internal Audit is coordinating with the Health and Human Services Commission (HHSC) to address the responsibilities of the respective enterprise agencies in meeting this requirement.